

Appendix D
Summary of Public Comments
For California's Substantial Amendment
For the Neighborhood Stabilization Program (NSP)

A. Eligible Applicants

COMMENT 1: We propose that nonprofits be eligible direct applicants for funds in the 25% low income portion of the program. As for the general program, nonprofits should be able to apply with the support of the local jurisdiction within the scope of its allocation.

COMMENT 2: The State determined that “jurisdictions directly funded by HUD be eliminated from the determination of the State’s greatest need when compiling and calculating data at the jurisdictional level” (p. 5 of the Substantial Amendment). We support this methodology. However, three jurisdictions that will receive direct allocations of NSP funds from HUD, Los Angeles County, Orange County, and San Diego County, are also proposed to receive NSP allocations from HCD. While HCD’s footnote in Appendix C acknowledges this, the explanation as to why these HUD-funded jurisdictions are eligible for HCD funds is not clear.

We support a flexible approach that allows eligible applicants to execute locally appropriate strategies based on local conditions. This means ensuring that all federally-eligible applicants are eligible to apply for State funds, that the full range of eligible activities is permissible and of equivalent importance depending on what will work best locally, that innovative approaches are not disadvantaged, and that funds are truly allocated on a statewide basis in urban, suburban, and rural communities.

COMMENT 3: We request the inclusion of non-profit organizations as an eligible applicant or as an eligible partner to jurisdictions listed in the Appendices (part B, *Eligible Applicants*, page 7). Though the Plan does not prohibit jurisdictional subgrantees from subgranting to non-profit organizations, some jurisdictions may not have the capacity or interest in applying for NSP funds. Allowing non-profit applications will permit smaller jurisdictions to compete for funds and to expedite obligation of funds.

COMMENT 4: HCD’s recommendation to eliminate all NSP-funded entitlement jurisdictions that have already received funding means that many California jurisdictions that the HUD allocations demonstrate as having been hardest hit by the foreclosure crisis are simply eliminated. The State of California did not receive our fair share because HUD was required to ensure each state received a minimum guaranteed amount without regard to need, diluting the dollars. Unfortunately, HCD is proposing to perpetuate the exact same faulty rationale and ineffective process by further watering down the state’s allocation. HUD, in devising the guidelines for the NSP program anticipated that states would use their statewide allocation of funds to supplement HUD’s direct allocations to local jurisdictions that have been hardest hit by the foreclosure crisis.

Instead of funneling all of the tier two flex dollars to non-entitled jurisdictions, we recommend that HCD split the money between a set aside allocation process for already entitled programs and a set aside for a competitive program for tier two non-entitled jurisdictions thereby guaranteeing a timely expenditure of money. HCD should also consider requiring a nine month timeline for the commitment of funds. If that timeline cannot be met then unused funds should be released to already entitled programs who have already fully committed their NSP dollars.

COMMENT 5: HCD's proposal to eliminate direct NSP grantee jurisdictions from the State's determination of areas with greatest need disqualifies Los Angeles from applying for Tier 1 and Tier 2 fund categories, which totals 75% of the NSP funds that the state has made available. By making NSP recipients ineligible, the areas of the state that have been most affected by the foreclosure crisis cannot access the funds we so urgently need to stabilize our neighborhoods. By awarding the small NSP amounts that HCD proposes (some as small as \$103,000), our state's recovery efforts cannot fully realize NSP's intended potential. We recommend that the State allow cities that received a direct NSP allocation to apply for both Tier 1 and Tier 2 funds.

COMMENT 6: We recommend the State meet the Congressional mandate to target NSP funds to "those metropolitan areas, cities, urban areas, rural areas, low and moderate income areas, and other areas with the greatest need based upon HUD's identified three factors." This can be done through setting aside a specific appropriation for Tier 1. Or, minimally provide a timeline for subgrantees to apply for State funds and when the timeline is not met, appropriate a portion of the unallocated NSP funds to the hardest hit entitlements cities.

COMMENT 7: The Amendment segregates 25% of available funds for households at or below 50% of area median income, providing a separate over-the-counter application process. Salinas supports this approach as being a reasonable method of ensuring that funds for this more difficult to serve population can be accessed by those ready and able to use them efficiently. We do believe, however, that housing authorities and non-profit housing providers should be able to apply directly to HCD for these funds. It appears your proposal restricts applicants to cities and counties listed in Appendix A, thereby adding another administrative layer.

COMMENT 8: Housing Authorities should be eligible to access those awards that won't be utilized in Tier 1 and 2. Housing Authorities should also be an eligible applicant especially for the Tier 3 funding because they are much better equipped to hold properties as "landlords" until the properties can be resold to families earning 120% and below AMI.

B. Contiguous and Joint Applicants

COMMENT 1: For Tier 2 eligible jurisdictions, please consider expanding the definition of contiguous boundaries to include jurisdictions that are within the same county to be contiguous for this NSP funding.

COMMENT 2: Regarding the requirement that eligible jurisdictions be contiguous and if they're not, the County must join the JPA or MOU is an issue. Specifically, the four Tier 2 cities are contiguous in the sense that they are all "relatively" nearby in a relatively small County. None of the four are adjacent to each other. To drag the County, who would not be receiving any funding from HCD, doesn't seem practical and from our initial contact with them, doesn't seem likely. Request that there be some consideration that would allow the non-contiguous cities to join in a JPA/MOU without the county involvement.

COMMENT 3: While the documents are not clear, I believe that the Department proposes to allow cities, counties, non-profits, and tribes to apply for NSP funding. What happens in the event that multiple applicants apply for any particular jurisdiction's allocation? Is the city (or county for unincorporated areas) given priority over other applicants? If the city does not apply but multiple other entities (such as the county on behalf of a city, a non-profit, and a tribe) apply, how will the Department choose among applicants? The Department may need to clarify how this situation will be handled and develop a scoring system to apply in those cases where a choice is required.

COMMENT 4: Tier 2 grantees applying under a joint application should be allowed to operate separate programs. Individual jurisdictions can have differing needs, resources and economic factors that affect their ability to conduct NSP funded activities. A "one size fits all" requirement under a joint application would severely limit the ability of Tier 2 grantees to gain maximum benefit from NSP funds.

COMMENT 5: We recommend that HCD create an exception to the requirements for Tier 2 recipients for those jurisdictions that are not contiguous to other Tier 2 eligible jurisdictions. Alternatively, we recommend these jurisdictions be allowed to join with other jurisdictions in the County, whether they be contiguous or not, to reach the \$1 million threshold, and without the County serving as a necessary party to the joint agreement.

We request that the Department incorporate an explicit requirement stating that counties that receive funds because of a city's failure to receive such funds must expend those funds in accordance with the allocations indicated in Appendix C.

COMMENT 6: It would be logistically difficult to enter into a Memorandum of Understanding or a Joint Powers Agreement with a jurisdiction that is contiguous to our City in order to combine our funding allocation with their allocation in an amount that has to exceed \$1 million. In the Tier 2 list there is not another city listed on this list that we would be able to combine with that is contiguous to our City.

COMMENT 7: Why was "contiguous" an important criterion for allocating Tier 2 funds? Contiguous works for counties like L. A. and cities in the Bay area, but does not work well or at all for rural counties where pretty much all cities are not contiguous.

C. Land Banking Vacant Properties

COMMENT: In many of the communities hardest hit by the foreclosure crisis, there is a significant number of developed, vacant lots that are often adjacent or near foreclosed houses. To stabilize these neighborhoods and prevent future blight, it is important in addition to the homes being purchased and resold, that nonprofits also be allowed to use NSP resources to purchase lots from the banks that own them. The language in the substantial amendment does not appear to clearly contemplate this program activity, primarily because it only refers to “land banks for homes that have been foreclosed upon” under the Eligible Activities section. Therefore we propose to clarify that vacant properties are not only an eligible activity for land banking, but one that can be a priority in communities with this problem.

D. State and HUD Allocation

COMMENT 1: We strongly encourage HUD to allocate any unused NSP funds or program income to the State of California to target NSP funds where they are most needed, as intended in the federal HERA legislation. The State of California represents 25% of foreclosures nationwide, but received only 13.5% of the \$3.92 billion NSP funding. Reallocation of unused funds would help to balance these numbers and place funding where it is most critically needed.

COMMENT 2: A fourth category should be created to allow jurisdictions that have not been deemed eligible by the State can apply for any unused funds after the first round of applications.

COMMENT 3: A rural set-aside should be put in place for future HCD funding awards.

COMMENT 4: We have serious concerns with HCD’s decision to exclude major metropolitan municipalities from eligibility for allocations under the NSP Amendment. We are aware of several other communities in the County that have experienced substantial home value reductions, and believe that this has resulted in high levels of foreclosure activity throughout the County. NSP funding would give the City and its nearby communities crucial and much needed support in mitigating the effects of this foreclosure activity. We request the opportunity to present further information to HCD regarding allocations to San Mateo County under the NSP Amendment.

COMMENT 5: Merced County jurisdictions have the highest percentages in foreclosure rates and percent of change in housing prices. Housing prices in the County area have dropped over 60% in the last two years. These items alone will have a significant impact on the property tax revenues the jurisdictions would normally receive. The amount needed is approximately \$23 millions more than what is currently allocated in the Substantial Amendment. Please consider allocating any additional or forfeited allocations the State may receive to the Merced area jurisdictions.

COMMENT 6: In the plan it appears that some isolated areas that statistically show high need are not represented in the proposed allocations. A search of TRF Policy Map, in its HUD Neighborhood Stabilization Program income eligibility section shows the majority of the City of Gilroy as being eligible, with pockets partially eligible. The same data source shows a predicted 18 month underlying foreclosure rate of 7.85 percent or more for a large Census Tract in Gilroy, another section with a rate of 5.66-7.84 percent and most of the balance of the jurisdiction at 4.05-5.65 percent.

Santa Clara County has a recent history of being one of the more affluent counties in the state, but there are pockets of need throughout, that may not be all contiguous, but they exist, nonetheless. I realize that there is great need throughout the state, but I am requesting that you take a look at the allocation formula to determine how it can benefit high need areas that may be not directly contiguous with other such communities.

COMMENT 7: After careful review of the Substantial Amendment the City of Fresno has concerns regarding directly funded entitlement cities being eliminated from consideration from Tier 1 and Tier 2 NSP funding. In its review of statistical data related to the foreclosure crisis, the State of California identifies the Central Valley as the hardest hit area in the State. As the population hub of the Central Valley, and an area identified in 2005 by the nationally renowned Bookings Institute as having the most impoverished population (per capita), there is an assumption that Fresno would not be overlooked in the State's subgrantee process.

COMMENT 8: The proposed distribution of funds and application requirements outlined in the State Amendment will have the de facto effect of eliminating any Neighborhood Stabilization Plan (NSP) activities from occurring within the City of Santa Clarita's (City) jurisdictional boundaries. The Substantial Amendment allocates \$826,455 in NSP funds to the City. In order to apply for these funds, the City is required to partner with one or more jurisdictions having a contiguous border, which have a combined allocation of at least \$1 million dollars. The only jurisdiction with a contiguous border to the City is the County of Los Angeles (County). The County's allocation of \$187,059 combined with the City's allocation equal \$1,013,514, an amount sufficient to apply for State NSP funds. Based on the allocations and application guidelines, the City's only option for State NSP funding is a joint application with the County.

The County has expressed an initial willingness to partner with Santa Clarita in an application to the State for NSP funds. However, the County has indicated that they will only participate in a joint State application with the City if the County is named as the lead agency with full control over the use of all NSP funds awarded. The County has also stated their intent to use any State NSP allocations in the same target areas as outlined in their recently released Substantial Amendment to the County CDBG 2008-2009 Action Plan (County Amendment). The City is not included in the target areas. The County is unwilling to consider using the City's allocation of State NSP funds for activities within the City of Santa Clarita.

If the City is awarded State NSP funds through a joint application with the County, the entire \$1,013,514 would be used in the County's target areas, resulting in none of the City's allocation being used within the City's jurisdictional boundaries.

We believe this is not the outcome the State intended when designing their NSP Program. We request that the thresholds for individual State NSP applications be changed to \$800,000. This change would not significantly increase the administrative burden on the State, and would result in a more equitable distribution of State NSP funds. Alternatively, the State could provide an exception process, in which jurisdictions may appeal the State's \$1 million dollar threshold when the application of the threshold will eliminate their opportunity to use State NSP funds within their jurisdictional boundaries.

COMMENT 9: We strongly oppose the amendment. The draft program guidelines appear to preclude the City of Irvine from its share of the allocated funds. The program guidelines establish three tiers of eligibility, and all three of these tiers seem to disqualify the city from simply applying for any of its allocation.

The guidelines encourage jurisdictions to apply jointly with neighboring cities for an amount not less than \$1 million. Yet the City's neighboring cities identified as eligible co-applicants have a combined allocation just below \$1 million. It appears that the City is eliminated under this eligibility category.

E. Retention of Program Income

COMMENT: State grantees cannot make a significant impact in distressed neighborhoods without the retention of NSP Program Income. The State's allocation method allows jurisdictions qualifying for as little as \$100,000 to receive NSP funds. Setting the threshold this low increases the number of grants while reducing the amount of funding that any one jurisdiction can receive. While we understand that the foreclosure need is high throughout the state, the small allocations are totally inadequate to address the severe foreclosure problems we are experiencing. By revolving our program income, over time we can achieve an impact that would be impossible with our initial allocation alone.

F. Below-Market Purchase Requirement

COMMENT 1: The State requirement to purchase all homes at a minimum 15% below appraisal value is detrimental to the stabilization of property values in neighborhoods impacted by the foreclosure crisis. By concentrating NSP funding in areas with the most foreclosure impact, the 15% requirement will continue to devalue residential property values. We ask that the State continue to advocate with HUD on behalf of distressed neighborhoods throughout California to eliminate or modify the 15% requirement.

COMMENT 2: We would like to encourage HCD and HUD in initiating a "State-wide" dialogue with lending institutions in California to bring focus to this issue and encourage greater collaboration with lenders in the local level as we attempt to leverage the use of limited NSP funds to address the current foreclosure crisis.

COMMENT 3: Lenders holding mortgages on foreclosed homes are not motivated to participate in the NSP program. The most effective approach to deploying these funds will be "bulk" purchases, targeting three to four lenders. Without some cohesive approach to

connect mortgage holders with recipients of NSP, the costs to deliver will increase which will in turn result in fewer foreclosed homes being purchased.

COMMENT 4: Draft guidelines proved that foreclosed homes must be purchased at a minimum discount of 15% as required by HUD. While Monterey County acknowledges the need to promote fairness for lenders participating in the program, the 15% discount will be difficult and costly to administer. At minimum, draft guidelines should be revised to clarify implementation requirements related to the price discount.

G. Leverage for NSP

COMMENT 1: The small amount of NSP funding available in each jurisdiction requires that we leverage the funds to make an impact on deteriorated neighborhoods. We ask the State to accommodate this need by relaxing current requirements for contract amendments with other funding sources such as State CDBG, HOME and CalHome. We ask that the State allow grantees to change activities or modify programs to utilize these other types of funds in conjunction with NSP projects.

COMMENT 2: NSP funds should be allocated in coordination with other public funds, including HOME and CDBG, to prevent the displacement of older homeowners and the further deterioration of housing occupied by low income older residents.

H. General Administration

COMMENT 1: We request the State to consider allowing grantees to retain the full 10% of general administration fees allowed for program income. The State's administrative burden for program income funded activities will be significantly less than for a new grant. There will be no application to review, the guidelines will already be approved and there will be no grant agreement to develop. If grantees are allowed the additional general admin, we can use this money to improve our programs and increase our ability to utilize NSP funding quickly and efficiently.

COMMENT 2: Administrative costs for Tier 3 are not covered in the Amendment.

COMMENT 3: HUD regulations provide that 10% of available NSP funds may be used for the cost of administration. As presently drafted, 5% of this amount will be available to local jurisdictions to administer the grant and the balance will be retained by the State. The draft guidelines should be revised to clarify that all local activity costs as well as administrative costs can be fully funded as or part of the NSP grant process.

COMMENT 4: The Amendment proposes that HCD retain \$7,253,575, the equivalent of 5% of available NSP funds, to be used for the Department's expenses in overseeing the State's portion of the federal allocation to California. Put simply, that amount seems too high. Assuming some Tier 1 and Tier 2 jurisdictions will be not participate, and that most Tier 2 entities will band together in a joint process with their counties, a reasonable estimate of participating jurisdictions ranges from 45 to 55. Thus, HCD would be administering that many

Grant Agreements, including all that implies. Spreading the \$7¼ million across that many jurisdictions works out to \$145,000 per Agreement. Moreover, if HCD retains that 5%, only 5% will remain for local jurisdictions to actually implement the program.

I. Flexibility of State Grant Agreements

COMMENT: The State should provide grant agreements that are flexible enough to allow grantees to take advantage of opportunities as they arise. The current economic situation is changing rapidly. There is no way for grantees to know if programs designed today will be viable by the time funds are available next summer. Rather than project- or program-specific grant agreements, we recommend that the State allow all eligible NSP activities to be conducted as the grantee sees fit. As a special condition of the grant, the grantee could be required to submit program guidelines before engaging in any specific activity.

J. Timeliness of Grant Agreements

COMMENT 1: We request that the State develop a facilitated process to approve and distribute NSP grant agreements. The State must obligate NSP funding within 18 months or risk losing funding. Grantees will need to receive grant agreements within a few months to ensure that they are able to obligate funds in time to meet the HUD deadline.

COMMENT 2: It is of significant concern as to how much time the State will give for jurisdictions to submit in applications according to the methodology for Tier 2. Any NSP funds not given to the jurisdiction goes to the respective county who then can distribute to funds to jurisdictions within that county, which begs the question, how much time will the county be afforded to carry this out.

COMMENT 3: It is imperative that HCD establish a rapid recapture timeline for unencumbered funds for all three categories of Tiers. In this way, unspent allocations are taken back with enough time for other jurisdictions to use the funds before the HUD mandated 18 month encumbrance date. The process for reallocation of these funds should be handled expeditiously, to avoid a HUD recapture.

K. Speed of Reimbursement

COMMENT: All jurisdictions are suffering due to the financial and housing crisis. We do not have sufficient cash on hand to front large sums of money for extended periods of time. If the State cannot improve the period that it takes to receive reimbursements from the CDBG program, we recommend that you petition HUD for the flexibility to allow grantees to request lump sum draws to establish and replenish a fund for both acquisition and rehabilitation, similar to the way such as fund can be established for owner-occupied rehab in the Grants Management Manual chapter 9 (federal regulation §570.513).

L. Eligible Use of Operating Reserves

COMMENT: We recommend listing creation of operating reserves as an eligible activity (part B, *Eligible Activities*, page 7). The 25 percent set-aside will generally be used for multifamily housing. NSP capital funding, however, will not be effective for this income category without funding to subsidize the maintenance, operating costs, and service coordination. In answer to Frequently Asked Questions, HUD indicated that states could permit use of NSP funds for operating reserves, “if the NSP grantee can demonstrate that such a requirement is consistent with industry practices and the dollar amount of the required reserves is consistent with local industry standards”

(http://www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/docs/ntpfaq_acquisition_relocation.doc).

M. Administrative Funds for Technical Assistance

COMMENT: Recommend a plan to allow administrative funding for technical assistance, capacity-building, and training (part B, *General Administration*, page 10). Technical assistance and capacity building activities will help applicants to obligate funds more quickly, given the abbreviated timeframes required.

N. Create an Innovative Program to Leverage State Resources

COMMENT: We suggest using NSP funds to create an innovative program that would leverage and promote use of the State’s existing state supportive housing programs (the Multifamily Housing Program for Supportive Housing (MHP-SH), the MHP-Homeless Youth program, and the Mental Health Services Act). We recommend including in the over-the-counter NSP process incentives for creating supportive housing. Incentives could include:

- (a) Providing additional points for applicants who intend to leverage other federal, state, or local resources.
- (b) Allowing sponsors to apply for MHP-SH or Homeless Youth funds with an application for NSP for specific projects developed on foreclosed or abandoned sites.
- (c) Increasing MHP-SH and MHP-Homeless Youth loan limits for sponsors who have identified qualified abandoned or foreclosed properties for supportive housing developments. These higher loan limits could help fill current gaps created by difficulties obtaining tax credit syndication.
- (d) Using some development fees allowed by NSP to increase developer fees for supportive housing developments. Increasing fees would help shore up and increase capacity among non-profit developers during these difficult times, as well as provide incentive to access this funding.
- (e) Offering an operating reserve to eligible projects to pay for some operating expenses, including service coordination.
- (f) Allowing applicant jurisdictions to land bank properties for future supportive housing developments. Although preferable to help potential owners purchase properties directly, the 18-month time period to commit the funds may not be sufficient. Landbanking will permit applicants greater flexibility in using these funds.

O. Eligible Applicants for the 25-Percent Set-Aside

COMMENT 1: HCD's process for allocating the 25% Very Low-Income NSP funds to jurisdictions is unclear. While not specified in the Substantial Amendment, this implies that (a) this amount is the 25% that must be utilized for Very Low-Income benefit, and (b) HCD does not plan to allocate this sum by individual jurisdiction. This raises a number of questions. What will be the application process and selection criteria for these funds? Will there be any formulas utilized to limit the maximum amount eligible jurisdictions might receive of these funds? Will there be an attempt to achieve an equitable distribution of these funds across eligible jurisdictions?

COMMENT 2: We urge the State to allow entities other than Tier 1 and Tier 2 jurisdictions to make application for funding directly to the State. Specifically, housing authorities are also political subdivisions of the state and are a form of local governments. We ask that housing authorities be allowed to apply in their own right or on behalf of nonprofits and/or partnerships for these competitive funds. Housing authorities understand grants management and already receive funding directly from the State and from the federal government for housing programs. Grants management systems that meet CDBG requirements are already in place.

We have been working to develop a partnership with the local nonprofit that provides housing for the homeless. We hope to be able to access these funds for the purpose of helping people through the continuum of housing options so that they will have secure, affordable and permanent housing. Adding an additional layer of bureaucracy does not meet the federal intent of NSP funds to move them out on the street quickly.

COMMENT 3: We are interested in assisting local non-profits purchase foreclosed homes for use as supportive housing environments for at-risk populations. It would be helpful if that were considered an eligible use of NSP funds.

COMMENT 4: Tier 3, the low-income set-aside funds represents 25% of the funds that the state has made available. This is the only category under which the City of Los Angeles can apply. Although the City intends to apply for these sources, it is an inequitable resolution on how to serve low-income Californians. By not requiring the proposed eligible applicants to Tier 1 and 2 dollars to also serve households at or below 50% of AMI, this responsibility will likely be shifted to the large cities. In lieu of changing the requirements of Tier 1 and Tier 2 funds to compel jurisdictions receiving these dollars to serve very low-income households, I propose the State provide the largest cities of CA with a direct allocation to received Tier 3 funding that is based on need.

COMMENT 5: While we appreciate the intended flexibility for use of the 25 percent set-aside, we recommend the Substantial Amendment include a strategy of how these funds will be allocated. The Federal Register (section II.B.) indicates that the State must plan for the use of NSP funds in the context of a vision of how the funds can make, "neighborhoods not only more stable, but also more sustainable, competitive, and integrated into the overall

metropolitan fabric.” A stated plan would not only fulfill this requirement, it would allow jurisdictions to begin preparing for the State’s request for proposals.

Specifically, we suggest the Action Plan include a statement of intent to use funds to create permanent supportive housing (part B, Requirements for the Use of NSP Funds, page 6, and part D, *Low Income Targeting*, page 13). Supportive housing is housing that is affordable with case management, health, vocational, and related services. It is a proven effective model for stably housing people with special needs who are homeless or at risk of homelessness.

COMMENT 6: The State has limited direct funded jurisdictions to Tier 3 funding, and did not equitably share the requirement to spend at least 25% of NSP funding on households earning at or below 50 percent of the AMI. In most California cities there is a portion of the population earning well below the 50 percent AMI, but proposed subgrantees area are not required to assist this target group. This places the burden on the entitlement jurisdictions to serve the poorest population while subgrantees can serve the higher income households of person earning up to 120 percent of the area median income.

Recommend the State require each subgrantee to meet the Congressional mandate of serving the low income populations from Tier 3 funding. This will make available Tier 1 and Tier 3 funding for the areas of greatest need and equitably share the task of targeting funds to very low income population.

P. Limited Resources

COMMENT: I understand the Department’s interest in distributing the money widely among communities in recognition of the fact that the entire state has been touched by the mortgage foreclosure crisis and financial meltdown, but I believe it is unwise to spread the limited resources so thinly by allowing such a large number of jurisdictions to access funding. The intent of the program is to serve the areas of greatest need. This proposal distributes money in proportion to need but funds all jurisdictions, not just the neediest.

Spreading the money so thinly will make it hard for the program to have a real impact and the minimum grant of \$1 million is only enough to buy 2-10 homes, depending on the market. Even where downpayment assistance is used in lieu of purchasing properties outright, \$1 million would only serve 50 families with a loan of \$40,000. I do not believe that the program will have a meaningful impact with grants at this level.

I urge the department instead to identify the top 20-25 neediest NSP non-entitlement communities and focus the entire \$101 million of non Tier 3 funds into these communities. While all communities have needs, not all are experiencing abandonment and blight. These funds should be directed to communities in severe distress and in a manner that would allow for the program to have a significant impact on blighting conditions.

Q. Focus on Areas Where the Market Cannot Absorb Foreclosures

COMMENT 1: I would urge the Department generally to determine need in a manner that benefits communities where there is a large percentage of foreclosed homes and where these homes are not selling. While there are many potential ways to accomplish this, one way is by making the following calculation:

$$(\text{Jurisdiction's foreclosure rate} / \text{Balance of the State's foreclosure rate}) \times (\text{Percentage of REO properties in the Jurisdiction that have been on the market for more than 90 days})$$

If data on the percentage of non-selling REO properties is not available, then I would recommend a similar factor for which data is available. At a minimum, I would recommend using the jurisdiction's vacancy rate.

The Department could use the calculation to rank all NSP non-entitlement jurisdictions for need, then allocate the funds among the neediest 20-25 jurisdictions as described above by using the percentage of foreclosed homes in each of the 20-25 jurisdictions in relation to the aggregate number of foreclosed homes among all 20-25 jurisdictions:

$$\text{Jurisdiction's share} = \text{Amount of funding available} \times (\text{Jurisdiction's number of foreclosures} / \text{Total number of foreclosures among neediest 20-25 jurisdictions})$$

This approach would focus meaningful resources on communities where market failures are most likely to lead to blight. Once the neediest jurisdictions were determined, funds would be allocated in proportion to the number of foreclosures among these needy cities and counties, i.e., by size of the problem.

COMMENT 2: Utilize more accurate data sources, such as Dataquick and Reality Trac rather than the dated publicly available data sources used by HUD earlier this year.

COMMENT 3: Define the geographic area of need in a more focused way. San Francisco suggested Census Tract of zip.code as a better geographic boundary which reflects neighborhood disparities in foreclosure rates in dense urban areas.

COMMENT 4: Change the allocation formula to focus resources at a smaller geographic level to reflect higher foreclosure rates, but allocate more resources to less geographic areas.

R. Unclaimed Allocations

COMMENT: In the event that jurisdictions for which allocations are reserved do not apply or do not meet the threshold criteria, how will the Department reallocate their share of funds? This is relevant regardless of whether the Department uses its current allocation methodology or the one I proposed above. Under the Department's current proposal, the Department could determine the aggregate unclaimed amount after the deadline for finalizing grant agreements and increase all successful grants by a proportional amount. Under my proposal

above, the Department could simply make any unclaimed funds available to the next one or few jurisdictions on the need-ranking list.

S. Minimizing Displacement

COMMENT: I applaud the Department's interest in minimizing displacement (Amendment, page 10). While I am not intimately familiar with the federal statutes referenced, it appears that displacement is allowed but relocation assistance is required. To the extent that NSP funds are used to purchase and rehabilitate multi-family housing, this seems necessary and appropriate. With respect to single-family housing, however, I would urge the Department to prohibit the displacement of tenants except holdover tenants who previously owned the home. The purpose of the program is to fill vacant properties and reduce blight. Rental properties fit neither of these descriptions, and there is no benefit to removing existing tenants from a property, especially when doing so would cause hardship for the tenant.

T. Elderly Needs Should Be Addressed

COMMENT: We request that adequate NSP funding be allocated within the Action Plan to (1) ensure that the needs of low income elderly residents received a proportionate amount of funding and are a designated priority in plans for neighborhood stabilization, (2) provide cost effective energy efficiency improvements to rehabilitated and redeveloped properties for low income residents, and (3) mandate, to the greatest extent possible, universal design and visibility features into rehabilitated and redeveloped properties to promote aging in place.

U. Allocation Methodology

COMMENT 1: In keeping with the legislation (H.R. 3221) and with HUD regulation, the Amendment is focused upon the allocation of NSP funds to *areas of greatest need*. What is lacking in the allocation formula, however, is an acknowledgement of the wide disparity in housing prices between areas of California experiencing high rates of residential foreclosures.

Coastal cities and counties, in general, exhibit the higher housing prices typical of California. Equally important, however, is the 'affordability gap' that routinely puts coastal cities at or near the top of the "least affordable housing markets" listings put out by the National Association of Home Builders and other industry bodies. Not only are coastal property prices high, but wage levels are quite low, comparable to those of the San Joaquin Valley agricultural communities.

The proposed allocation methodology tallies "need" by comparing the rate of certain events: foreclosures, sub-prime loans, and a projected increase in foreclosures. The other side of the equation needs to be considered as well. If the figures show a coastal city with the same need as a jurisdiction in the Central Region, but the cost to acquire foreclosed properties will run half again as much, then NSP is not being allocated in proportion to the need. The same amount of NSP funds allocated to different areas will do much less to address the need in higher cost areas.

COMMENT 2: As required by HR 3221 and HUD regulations, the proposed allocation formula is focused on allocating NSP funds to areas of greatest need. The allocation methodology, however could better achieve this objection if the were revised to include and adjustment of higher priced areas in recognition of the wide disparity in housing prices in the Central Coast Region as compared to other areas of California experiencing high rates of residential foreclosures.

COMMENT 3: Your allocation methods do not seem to take into account high cost areas with low income wage earners.

COMMENT 4: We suggest that your department consider an additional eligibility tier that addresses existing Affordable Housing Land Trusts. For example, a Tier 4 could be established that specifically established Land Trust eligibility. This change would promote the timely and effective expenditure of federal funds for the purposes for which it was intended.

V. HCD Assistance Dealing with Large Lenders

COMMENT: Jurisdiction officials at the county, city and housing authority levels have been trying to forge working relationships with lending institutions that own mortgages in their community. During better times—when the City was assisting first-time homebuyers or instituting inclusionary housing programs—staff was able to establish relationships that we believe were mutually beneficial. Since the ‘sub-prime mortgage meltdown’ similar efforts to connect with the institutions’ staff charged with servicing loan portfolios or handling defaults have been markedly less successful. The constraints of the NSP legislation (e.g., requiring lenders to sell properties at a discount) will not be overcome without direction from the top levels of the lending institutions’ management structures. We ask that HCD take an active role, perhaps in concert with your counterparts in the HUD Regional Office, in promoting the NSP program to the major mortgage lending institutions operating in California. And I do suggest CalHFA be included on that list.

The high number of foreclosures experienced in our community, and the greater number anticipated to occur over the coming years, are a major concern of the governing bodies. We understand that the design of NSP as set forth in the enabling legislation restricts its application to only one facet of the broader problem. We share your department’s desire to employ the limited NSP funds in an effective and timely fashion. We are hopeful that future reallocation of unused funds, both at the federal and the State levels will make additional funds available to this county and this community.

W. HUD National Objective

COMMENT: We oppose the requirement that 51 percent of the residents within a defined area must be below 120 Percent of the Area Median Income (AMI). This is a significant change from the original federal program, and its purpose is unclear.